

## **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The State Bank of Coloma, Coloma, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 16, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

**INSTITUTION-S RATING:** This institution is rated **Satisfactory**

The bank's loan portfolio revealed an adequate loan-to-deposit ratio, and a reasonable distribution of loans by income level and geography, based upon the bank's asset size, available resources and economic conditions. The bank's efforts are accomplished through the origination of real estate, consumer, small business and farm loans. The examination review of loans and denied credit applications, and bank policies and procedures revealed no evidence of prohibited discriminatory lending practices. In addition, no complaints were received by the institution regarding its CRA performance, since the previous examination.

The following table indicates the performance level of **The State Bank of Coloma** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>THE STATE BANK OF COLOMA PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination		

**DESCRIPTION OF INSTITUTION**

The State Bank of Coloma, with \$28 million in assets as of September 30, 1995 is a locally-owned bank with a single facility in Coloma, Michigan. The bank offers consumer real estate, installment, single-payment, and closed end home equity loans as well as commercial, agricultural and Farmers Home Administration (FmHA) guaranteed loans. The bank offers three, five and seven-year balloon real estate mortgages with private mortgage insurance (PMI) in cooperation with Community Home Mortgage, a private broker that packages real estate applications for funding by the bank. The bank forwards requests for 25-30 year fixed-rate real estate loans to Community Home Mortgage for package and sale on the secondary market. The service provided by the Community Home Mortgage broker gives bank lending personnel relief from the paperwork demands of real estate compliance and more time to devote to individual customers. With consideration given to the bank's asset size, staff and current economic conditions, the bank has the ability to meet most of the community's credit needs.

**DESCRIPTION OF BANK'S ASSESSMENT AREA**

The bank's main office, located in the City of Coloma, is approximately ten miles northeast of Benton Harbor, Michigan and is within the Benton Harbor MSA. The bank's assessment area falls within the Benton Harbor and Kalamazoo MSAs in southwestern, Michigan. The bank's rectangularly-shaped assessment area encompasses eight contiguous census tracts; four census tracts are in the Benton Harbor MSA (Berrien County), and four census tracts are in the Kalamazoo MSA (Van Buren County). Six of the eight census tracts in the assessment area are defined as middle-income (less than 120% and greater than 80% of the median family income); two census tracts are defined as moderate-income (less than 80% and greater than 50% of the median family income). There are no low-income or minority census tracts within the bank's assessment area.

The assessment area covers a large geographic area relative to the bank's asset size; however, the area is less densely populated as it extends beyond Coloma and Watervliet. Management indicated that the assessment area was defined with consideration given to the bank's existing customer base.

According to 1990 U.S. Census data, the total population in the assessment area is approximately 33,245 with the ethnic/racial distribution as follows: 30,109 or 90.6% White; 1,832 or 5.5% Black; 67 or 0.2% Asian; 848 or 2.6% Hispanic Origin; 372 or 1.1% American Indian; and 17 or 0.1% Other. Minorities comprise 9.4% of the population within the assessment area. The median household income of \$25,581 for the assessment area is below the median incomes for both the Kalamazoo (\$28,974) and Benton Harbor (\$27,245) MSAs. Approximately 36% of the households in the assessment area are upper-income, 21% are middle-income, 17% are moderate-income and 26% are low-income.

Although some local community contacts estimate that as much as 70% of the land in Berrien County is used for agricultural purposes, census data for the Benton Harbor and Kalamazoo MSAs indicates that from 1990 to 1993 the number of individuals employed in the farming

industry decreased by approximately 8%. Between 1990 and 1993, the manufacturing industry has consistently employed approximately 25% of the total workforce in the assessment area. Large industrial employers in the assessment area are: Watervaliet Paper Company Incorporated, a paper mill employing 499; Coloma Frozen Foods, a producer of frozen foods and juices employing 150; Menasha Corporation, a manufacturer of boxes and containers, employing 124; and Assembled Components, a manufacturer of cable, employing 75. The November, 1995 unemployment rates for Berrien and Van Buren Counties at 4.6% and 6.5% respectively, are higher than the State of Michigan November, 1995 unemployment rate of 4.2%.

There are a total of 16,157 housing units in the assessment area, with 9,341 or 57.8% owner-occupied, 3,033 or 18.8% renter-occupied and 3,783 or 23.4% vacant. A total of 3,338 or 21% of the housing units are located in the two moderate-income census tracts. The high vacancy rate is partially attributed to the significant number of vacation homes in Berrien County; however, during the examination, it was not possible to determine to what extent the number of vacation homes contributed to the vacancy rate in the assessment area. One-to-four family residences comprise 83% of the housing stock in the assessment area. Approximately 1,980 mobile homes predominate the middle-income and moderate-income census tracts and comprise 12% of the housing stock in the assessment area.

Contacts with local real estate businesses indicated that the supply of housing in the community is not sufficient to meet local demand. According to the contacts, developers have been reluctant to build in Coloma and Watervaliet due to the short spread between development costs and the sale price of the completed home. The median housing value of \$44,701 within the assessment area, is significantly below the median housing values for the Benton Harbor (\$52,723) and Kalamazoo (\$53,550) MSA's, and the State of Michigan (\$60,062). No large-scale housing developments are planned for the near future, and a proposal to develop a 100-unit housing development was recently rejected by the City of Coloma.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act and the Home Mortgage Disclosure Act.

### **Loan-to-Deposit Ratio**

The bank's quarterly loan-to-deposit ratios since the previous examination (March 31, 1995, June 30, 1995, September 30, 1995, and December 31, 1995) disclosed an average loan-to-deposit ratio of 58.8%. Comparison of the bank's lending with respect to peer (see the

chart below) revealed that the bank is below the peer loan-to-deposit ratio (bank-60.22% versus peer-64.49%). The bank's strategic plan for 1995-1996 targets a loan-to-deposit ratio of 60%

for 1996 and 62% for 1997. The bank plans to facilitate loan growth by increased community outreach by lending personnel.

Additional considerations when assessing the bank's loan-to-deposit ratio include the number of small, accommodation loans under \$1,000 that the bank makes, and competition from nonbank lenders. Management indicated that competition from nonbank lenders such as GMAC, which offers cash rebates and 4.9% financing, has drained considerable consumer installment lending business away from local banks. Loans secured by one-to-four family real estate comprised approximately 48% of the loan portfolio, followed by commercial real estate (18%) and commercial-industrial real estate (15%).

According to the Uniform Bank Performance Report (UBPR), dated September 30, 1995, the bank's performance compared to peer is illustrated in the following chart:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	0.00	3.21
1 - 4 Family Residential	46.97	27.81
Home Equity	0.00	0.46
Other Real Estate	19.52	20.53
Farmland	3.18	1.31
Multi-family	0.00	0.79
Commercial	16.34	14.93
TOTAL REAL ESTATE LOANS	66.49	58.34
LOANS TO INDIVIDUALS	11.33	13.82
CREDIT CARD LOANS	0.00	0.18
COMMERCIAL & INDUSTRIAL LOANS	15.15	16.12
AGRICULTURAL LOANS	6.49	1.68
MUNICIPAL LOANS	0.41	0.03
OTHER LOANS*	0.13	0.14
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

As the preceding chart illustrates, the bank performed at a level above peer in originating one-to-four family real estate loans, commercial real estate loans and agricultural-related loans. The decline in consumer lending is also reflected in the UBPR data, which shows the bank at a level slightly below peer. Community contacts indicate that consumer lending

needs are being met, and that housing and small business loans are the greatest credit need in the community. The overall level of the bank's lending is consistent with its size, resources and

lending opportunities within the community.

### **Lending Within the Assessment Area and Lending by Income, and Geographic Distribution**

The bank's analysis of the geographic distribution of loans made in 1995 revealed that the bank originated 74% of installment, 71% of commercial and 62% of real estate loans within the assessment area.

The following chart depicts the geographic distribution of the examination loan sample:

<b>LOAN TYPE</b>	<b>TOTAL SAMPLED</b>	<b>WITHIN THE LOCAL DELINEATED COMMUNITY</b>	<b>PERCENT OF TOTAL</b>
Single Payment	10	5	50.0
Installment	10	7	70.0
Real Estate	10	9	90.0
Commercial	14	11	78.5
Total Approved Loans	44	32	72.7
Denied Applications	14	12	85.7
Total Applications	58	44	75.9

As the preceding chart illustrates, 72.7% of the approved loans, 85.7% of the denied applications and 75.9% of total applications were within the assessment area. Analysis of the examination loan sample with respect to applicant income revealed that the following were received from either low-income or moderate-income individuals: two real estate loan applications, five installment loan applications and one single-payment loan application; two rejected installment and three rejected real estate applications.

Review of the call report and discussions with bank management indicated that all of the bank's lending is to small businesses and farms with gross revenues under one million dollars. It was noted that none of the commercial loans sampled were to borrowers with gross annual revenues over \$600,000. One business-purpose loan was made to a low-income applicant in census tract 106 and one loan was made in census tract 114 (both tracts are moderate-income).

Due to the bank's size and personnel resources, its participation in government insured loan programs has been limited to FmHA lending. Currently, the bank has seven FmHA loans for \$536,830 outstanding, with two FmHA loans for \$160,000 originated since the previous

examination. A community contact conducted during the examination indicated that FmHA lending has helped meet the credit needs of the community's low-income and moderate-income

residents.

### HMDA Data

Review of the bank's 1994 and 1995 HMDA data revealed that the bank approved 94% of the loan applications it received in 1994 and 90% of the loan applications it received in 1995. An accurate percentage of applications generated within the assessment area in 1994 could not be determined, due to the fact that loans and applications outside the Benton Harbor MSA are coded as "N/A" on the Loan Application Register (LAR). Since the bank does not have an office in the Kalamazoo MSA (which is within the bank's assessment area), it is not required to report geographic information for lending activity occurring in the Kalamazoo MSA. Approximately 75% of the bank's 1994 HMDA applications were generated within the Benton Harbor MSA. The majority of 1994 loans (34%) were generated in the City of Coloma, and in Coloma and Watervliet Townships. Although review of the bank's HMDA information indicated that the bank did not make mortgage loans in census tracts 106 or 115, maps showing the location of bank loans and discussions with management revealed that the bank has business/farm customers and loan activity (non-HMDA reportable) in those census tracts.

Review of loans and applications on the 1995 LAR as well as the bank's internal analysis of loans made in Van Buren County, indicates that 79% of total applications and 77% of approved loans were within the assessment area. Additionally, the bank's internal analysis indicated that three loans were made in a moderate-income census tract within the assessment area.

Review of the 1994 HMDA Report and 1995 LAR relative to applicant income revealed that the bank approved 83% in 1994 and 75% in 1995 of the applications received from applicants reporting gross annual incomes less than 80% of the median income (\$21,796) in the Benton Harbor MSA. In 1994, the bank approved all six of the applications received from minority applicants; two of the applications were submitted by low- or moderate-income minority applicants. In 1995, the bank also approved all four of the applications received from minority applicants; two of the minority applications received in 1995 were from low- or moderate-income applicants.

### **Response to Substantiated Complaints**

No complaints were received by the institution regarding its CRA performance since the previous examination.